

# HOUSE BILL REPORT

## SSB 5999

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### As Passed House:

April 19, 2005

**Title:** An act relating to the taxation of contracts to administer parking and business improvement areas.

**Brief Description:** Exempting service contracts to administer parking and business improvement areas from excise taxation.

**Sponsors:** By Senate Committee on Ways & Means (originally sponsored by Senators Prentice and Brown).

### Brief History:

#### Committee Activity:

Finance: 3/22/05, 4/15/05 [DP].

#### Floor Activity:

Passed House: 4/19/05, 95-2.

### Brief Summary of Substitute Bill

- Provides state and municipal business and occupation tax exemptions for amounts received by a Chamber of Commerce or similar business association for the purposes of administering a parking and business improvement area.

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## HOUSE COMMITTEE ON FINANCE

**Majority Report:** Do pass. Signed by 9 members: Representatives McIntire, Chair; Hunter, Vice Chair; Orcutt, Ranking Minority Member; Roach, Assistant Ranking Minority Member; Ahern, Conway, Ericksen, Hasegawa and Santos.

**Staff:** Mark Matteson (786-7145).

### Background:

*Business and Occupation Tax.* Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business. Revenues are deposited in the State General Fund. A business may have more than one B&O tax rate, depending on the types of activities conducted. The tax rate for most types of businesses that provide services is 1.5 percent.

While governmental entities are exempt from the B&O tax, payments received by nonprofit organizations, by governmental entities, or from charges to the organization's members are not exempt unless there is a specific provision in law that allows otherwise. One example of such a specific exemption is a deduction that is allowed to condominium associations for payments received by members of the association, if the funds are used for maintenance and upkeep of the residences and commonly held property.

*Municipal business and occupation taxes.* Cities may also impose gross receipts taxes on business activities. Thirty-seven cities impose B&O taxes. The Legislature limited city B&O taxes to a maximum rate of 0.2 percent in 1982, but higher rates are allowed if approved by the voters in the city, or if a higher rate was in effect prior to January 1, 1982. Cities imposing a B&O tax for the first time after April 22, 1983, and cities increasing tax rates, must provide for a referendum procedure to apply to the ordinance imposing or increasing the tax.

*Parking and Business Improvement Areas.* Under state law, all counties, cities, and towns (local governments) may create parking and business improvement areas (PBIA) that are designed to aid general economic development and to facilitate merchant and business cooperation.

The activities in a PBIA are financed through a special assessment that is imposed on businesses, multifamily residential developments, and mixed-use developments located within the geographic boundaries of the area. The assessments can be used to finance: (1) construction, acquisition, or maintenance of parking facilities in the area; (2) decoration of public areas; (3) promotion of public events in public places in the area; (4) furnishing of music in any public place in the area; (5) provision of maintenance and security of common public areas; or (6) management, planning, and promotion of the area, including the promotion of retail trade activities in the area.

The local government is authorized to contract with a Chamber of Commerce or other similar business association operating primarily within the boundaries of the legislative authority to administer the operation of a PBIA. There are a number of business associations that do so, including the Downtown Spokane Partnership and the Chinatown-International District Business Improvement Area in Seattle. The law governing the authority of PBIA provides that the contract administrator must lawfully comply with all applicable provisions of law.

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**Summary of Bill:**

Amounts received by a Chamber of Commerce or other similar business organization for the purposes of administering a parking and business improvement area are exempt from state and local B&O taxes.

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**Appropriation:** None.

**Fiscal Note:** Requested on March 10, 2005.

**Effective Date:** The bill takes effect 90 days after adjournment of session in which bill is passed.

**Testimony For:** This is a mechanism that allows property owners to tax themselves. Basically, the city administers the assessment and collects the moneys, and the business improvement area (BIA) is responsible for overseeing the expenditures. When the assessments are approved by the ratepayers, the revenue streams are set for a number of years and so a tax would be hard to recover. And to revisit the assessment agreement would require opening it up for renewal, which is not an automatic thing. With a tax in place, the renewal would be difficult.

This is a good example of a public/private partnership that works well. Without this higher revenue base, important security and cleaning services would otherwise be delayed or left undone. The Seattle Metropolitan Improvement District (MID) is doing some great things with the funds. The MID funded a community court which is expected to help reduce recidivism. This is a great opportunity for the Legislature to step up and say that it is supportive of this type of public/private partnership.

The Chinatown/International District BIA is supported by local business owners and receives about \$145,000 annually in assessments. Moneys are used for public safety, parking, sanitation, and marketing. If the district was required to pay tax, it might affect the way the programs are run.

Tacoma has one of the oldest BIAs, operating since 1988. It was very controversial at first and difficult for property owners to tax themselves. But this has indeed made a big difference in fighting crime, providing greater security, and cleaning things up. Now this is the basis for the transformation of the Tacoma downtown and companies are interested in locating there. Tacoma's BIA brings in about \$600,000 annually. It is very important to our members to hear that lawmakers, either state or city, recognize what they're doing. When the assessments are agreed upon, it is a 10-year agreement. The Tacoma agreement is up for renewal in several years and it will difficult if there is a tax in place.

**Testimony Against:** None.

**Persons Testifying:** Mark Barbieri, Seattle MID; Rod Kauffman, Building Owners & Manufacturers Association; Tim Wang, Chinatown-International District BIA; and Cynthia Meeks, Tacoma Pierce County Chambers.

**Persons Signed In To Testify But Not Testifying:** None.